

Capital Leases **Meeting Summary**

Meeting Information

Meeting Name: Capital Leases

Scribe: **DeVal Lott**

Facilitator: Lynn Stein

June 21, 2005 Time: 10:00am - 11:00am

Location: Suite 1612 West Tower

Invitees/Attendees

Date:

+ In attendance, - Absent, # Substitute, *Other

	Name	Organization/Department	Substituting For
+	Michael Joyner	SAO	
+	Bart Haberbosch	SAO	
+	Lynn Vellinga	SAO	
+	Derek Barber	SAO	
+	Thomas Clark	Accenture	
	Project Staff		Role
+	Lynn Stein	Accenture	AM Lead

Agenda

Item		
No.	Topic	Presenter
1.	Capital Leases for Governmental Agencies	Lynn Stein/Derek Barber
2.	Capital Leases for Property Management Agencies	Lynn Stein/Derek Barber

Page 1 of 14	09/26/05, 11:15 AM



Meeting Summary Capital Leases

Meeting Summary

Agenda Item No.	Main Points, Conclusions/Discussions, Decisions, Next Steps, Issues, New Action Items		
1	Capital Leases for Governmental Agencies		
	Capital Leases are not entered in PeopleSoft 7.02 by all agencies in a standardized or consistent manner. Agencies may be keeping track of leases outside of PeopleSoft in various different tracking methods		
	A meeting was held to discuss how to perform capital leases in version 8.8. From this meeting, a model was developed that automatically created capital lease entries in the system.		
	Notes:		
	Roll out process as requirement for upgrade		
	Proprietary funds processing is automated		
	No modifications required from governmental accounting standpoint		
	 The AM module creates entries correctly if there is only one ledger. Manual entries would need to be entered for other ledgers 		
	Set up a non-budget account, example: 900XXX		
	 Three manual journal vouchers would need to be entered by the agencies to create entries to the three ledgers: Actuals, Full Accrual and Statutory 		
	Training would need to be performed relating to journal vouchers		
	Fair Market Value and interest will be entered as part of the Lease Add.		
	See chart of examples at the end of this summary		

Page 2 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Agenda Item No.	Main Points, Conclusions/Discussions, Decisions, Next Steps, Issues, New Action Items		
2	Capital Leases for Proprietary Agencies		
	This is the PeopleSoft approach to capital leases.		
	Notes:		
	Profile ID drives the ledger entries in the AM module		
	AM generates an amortization schedule		
	 AM module has the capability to verify whether lease is a capital or operating based on values entered during Lease Add 		
	Operating leases should not create accounting entries. No depreciation generated		
	 There is no linkage from Asset Management to be able to send amoritization schedules directly to AP. 		
	 There is a link from Accounts Payables to Asset Management in order to send items tagged as assets directly to AM. 		
	 In order to implement the proposed AM accounting design there will be new manual processes to perform offsets to multiple ledgers. This will be handled as training and process re-design. A CR will be created to document and assess impact. 		
	See chart of examples at the end of this summary		

Action Item Review

Action Item (AI) No.	Date Open	Description	Action/Response
Al1.	6/21/05	Move funds from non-current to current.	Research how to move funds from non- current account to current account.
			Response: Delivered functionality does not perform any type of movement from non-current to current accounts. Reports and queries are available and manual journal entries would have to be made.

Page 3 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Action Item (AI) No.	Date Open	Description	Action/Response	
Al2.	6/21/05	Ability to sub-lease	Will the system handle sub-leases? Response: PeopleSoft does not provide any delivered method in the AM Module to track sub-leases or revenue generation. There is a possibility that Parent/Child relationship could be used to track sub-leases but there is no way delivered functionality to recognize revenue from these sub-leases.	
Al3.	6/21/05	Modify leases for changes made	Must we retire the lease and re-enter? Response: Leases may be modified with a cost change due to a re-evaluation. The system will re-calculate the payment schedule according to the change. An Accounting Template will have to be created for this transaction. Changes to the lease terms (either extended or compressed) are also accommodated without having to retire and re-enter the lease.	

Page 4 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Action Item (AI) No.	Date Open	Description	Action/Response
Al4.	6/21/05	How to handle capital lease down payments	Michael to research the accounting entries needed for down payments made on capital leases. Are the agencies recording principal and interest? Or are they calling it "rent"?
			Response:
			The delivered system does not have a specific place for lease down payments. This could be handled by the usage of the "Interim Rent" functionality which provides the ability to place an amount that is paid prior to the start of the lease. This amount can be capitalized and is noted as capitalized interim rent versus normal rent. Testing for practical usage will need to be done during system retrofit.

Page 5 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Action Item (AI) No.	Date Open	Description	Action/Response
AI5.	6/21/05	How to determine Fair Market Value (amortization schedule)	Research to be done to determine whether system utilizes the FMV or cost when creating amortization schedule.
			Response: The system uses the fair market value to verify the lease type. The system calculates the capitalized lease amount using the lesser of the Present value of Lease Payments and Fair Market Value field values.
			If the Present value of Lease Payments is less than the fair market value, the capitalized lease amount equals the present value of the minimum lease payment
			If the Present value of Lease Payments is less than the fair market value, the capitalized lease amount equals the present value of the minimum lease payment.
			If the fair market value is less than the Present value of Lease Payments, the capitalized lease amount equals the fair market value.
			One option is that the interest rate can be changed so that the net present value equals the fair market value. (May not be best practice for government environments).
			If not fair market value is entered, the lease amount equals the present value of the minimum lease payment.

Page 6 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Action Item (AI) No.	Date Open	Description	Action/Response
Al6.	6/21/05	Lease Hold Improvements – Can we enter 'bargain price'?	Research if we can enter a bargain price into the system. Response: The system will allow the entry of a Bargain Purchase Option (BPO) and/or a Bargain Renewal Option (BRO). Leases may be modified to take into account Lease Hold improvements. An addition to the cost due to a reevaluation may be entered. The system will re-calculate the payment schedule according to the change. An Accounting Template will have to be created for this transaction.
AI7.	6/21/05	A Change Request should be created to access the impact of implementation of proposed accounting design.	Create Change Request. Response: A change request to access the impact will be created in Phase III.

Page 7 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Action Item (AI) No.	Date Open	Description	Action/Response	
Al8.	6/21/05	What are the delivered Lease Reports?	Response:	The delivered reports are:
		Reports:	Report ID and Report Name	Description
			AMLE2000 Lease Summary Information	Lists lease summary information.
			AMLE2100 Lease Detail Information	Lists lease detail information.
			AMLE2200 Lease Amortizatio n Schedule	Lists lease detail information.
			AMLE2310 Lease Footnote Disclosure Summary	Lists all outstanding lease commitments for five years and provides the monthly lease payment and yearly totals.
			AMLE2300 Lease Footnote Disclosure Detail	Lists all outstanding lease commitments for five years and provides the monthly lease payment and yearly totals.
			AMLE2400 Lease Expiration	Lists all leases expiring in a certain number of days from a specified date, or leases expiring within a date range that you select.

Page 8 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases

Parking Lot items

Parking Lot Item No.	Parking Lot Items
PL1	There were no parking lot items for this session.

Page 9 of 14 09/26/05, 11:15 AM



Meeting Summary

Capital Leases

TERMS

10K per month for 36 months Total payments 360K 5% interest to find 'FMV'

CAP LEASES (only for prop agencies) (\$333,657.01) (present value, FMV) NOTE: This is how People Soft is designed and delivered.
(\$1,390.24) interest on period 1

Ledger FL_accrual CR. Action Module Account Descr AM AM Initial add 175001 Asset account 333,657.01 286001 nitial add Lease Obligation (non-current) FL_accrual 333,657.01

Action	Module	Account	Descr	Ledger	DR.	CR.
Payment (period 1)	AM	716001	Cap Lease - Interest Pay- Exp	FL_accrual	1,390.24	
Payment (period 1)	AM	286001	Lease Obligation (non-current)	FL_accrual	8,609.76	
Payment (period 1)	AM	196015	Clearing Acct	FL_accrual		1,390.24
Payment (period 1)	AM	196015	Clearing Acct	FL_accrual		8,609.76
Payment (period 1)	AP	196015	Clearing Acct	FL_accrual	10,000.00	
Payment (period 1)	AP	101XXX	Cash	FL_accrual		10,000.00

Action	Module	Account	Descr	Ledger	DR.	CR.
Depreciation	AM	740001	Depreciation Expense	FL_accrual	9,268.25	
Depreciation	AM	176001	Accumulated Depreciation	FL_accrual		9,268.25
	333.657.01 divided by 36 months/ SL deprecation					

Action	Module	Account	Descr	Ledger	DR.	CR.
Retirement	AM	475001	OFS proceeds disposition GFA	FL_accrual	XXX	
Retirement	AM	176001	Accumulated Depreciation	FL_accrual	XXX	
Retirement	AM	286001	Lease Obligation (if any left)	FL_accrual	XXX	
Retirement	AM	175001	Asset	FL accrual		333,657.01

257001 is current for leases 286001 is non-current for leases

475001 is gain/loss for "govt" OFS 476001 is gain/loss for "govt" OFS

747001 is gain/loss of disposal of cap assets "PROP" only



Meeting Summary

Capital Leases

TERMS

10K per month for 36 months Total payments 360K 5% interest to find 'FMV'

CAP LEASES (only for govt agencies)
(\$333,657.01) (present value, FMV)

NOTE: People soft will have to be modified to come to this solution.
(\$1,390.24) interest on period 1

Action	Module	Account	Descr	Ledger	DR.	CR.
Initial add	GL? Manual Entry?	900XXX	Full "expenditure" (not budgeted)	Actual	333,657.01	
Initial add	GL? Manual Entry?	476001	Other financing sources (rev)	Actual		333,657.01
Initial add (off-set)	GL? Manual Entry?	476001	Other financing sources	FL_accrual	333,657.01	
Initial add (off-set)	GL? Manual Entry?	900XXX	Full "expenditure" (not budgeted)	FL_accrual		333,657.01
Initial add (off-set)	GL? Manual Entry?	476001	Other financing sources	Statutory	333,657.01	
Initial add (off-set)	GL? Manual Entry?	900XXX	Full "expenditure" (not budgeted)	Statutory		333,657.01
Initial add	AM	175001	Asset account	FL_accrual	333,657.01	
Initial add	AM	286001	Lease Obligation (non-current)	FL_accrual		333,657.01
			,			

Action	Module	Account	Descr	Ledger	DR.	CR.
Payment (period 1)	AP	716001	Cap Lease - Interest Pay- Exp	Actual	1,390.24	
Payment (period 1)	AP	713001	Cap Lease - Principal Pay- Exp	Actual	8,609.76	
Payment (period 1)	AP	101XXX	Cash	Actual		10,000.00
Payment (period 1)	AM	286001	Lease Obligation (non-current)	FL_accrual	8,609.76	
Payment (period 1)	AM	713001	Cap Lease - Principal Pay- Exp	FL_accrual		8,609.76

Action	Module	Account	Descr	Ledger	DR.	CR.	
Depreciation	AM	740001	Depreciation Expense	FL_accrual	9,268.25		
Depreciation	AM	176001	Accumulated Depreciation	FL_accrual		9,268.25	
	333,657.01 divided by 36 months/ SL deprecation						

Action	Module	Account	Descr	Ledger	DR.	CR.
Retirement	AM	475001	OFS proceeds disposition GFA	FL_accrual	XXX	
Retirement	AM	176001	Accumulated Depreciation	FL_accrual	XXX	
Retirement	AM	286001	Lease Obligation (if any left)	FL_accrual	XXX	
Retirement	AM	175001	Asset	FL accrual		333,657.01

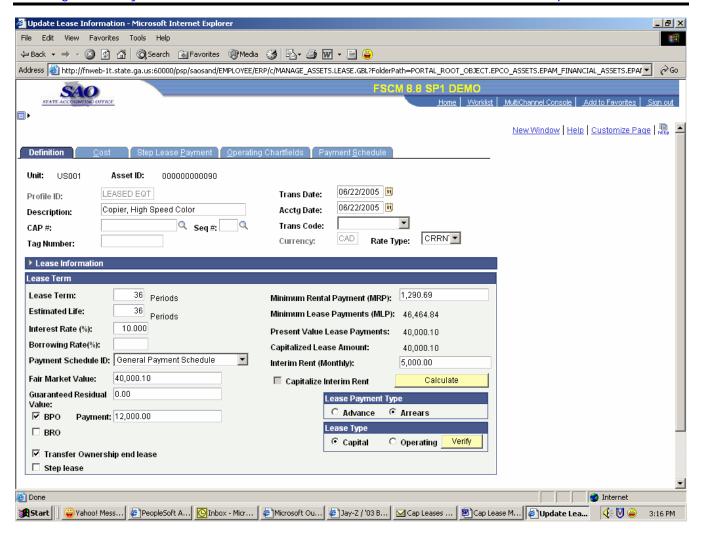
257001 is current for leases 286001 is non-current for leases

Other things to consider......cap lease down payment???

475001 is gain/loss for "govt" OFS 476001 is gain/loss for "govt" OFS



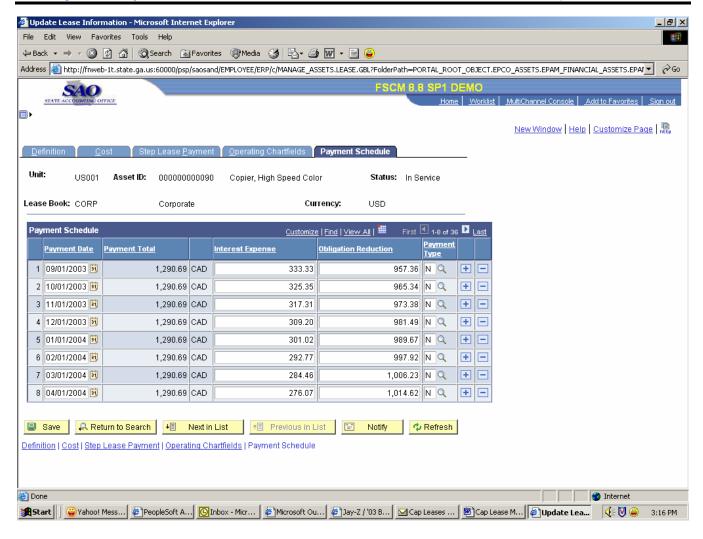
Meeting Summary Capital Leases



Page 12 of 14 09/26/05, 11:15 AM



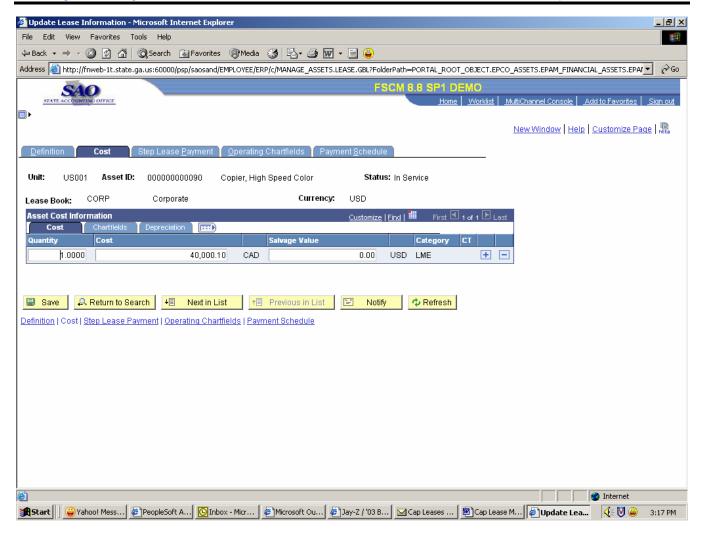
Meeting Summary Capital Leases



Page 13 of 14 09/26/05, 11:15 AM



Meeting Summary Capital Leases



Page 14 of 14 09/26/05, 11:15 AM